



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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April 12, 2005

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SUBJECT: April 10, 2005 REVENUE COLLECTION REPORT

General Fund-state collections totaled \$718.6 million in the March 11–April 10, 2005 collection period. Tax payments were 4.1 percent (adjusted) higher than a year ago and \$1.5 million (0.2 percent) less than the estimate for the period. Revenue Act (retail sales, business and occupation, use and public utility) taxes (-\$7.8 million) and real estate excise tax (-\$856,000) were a little below the estimate this month. Estate tax, unclaimed property transfers and nursing home fees were higher than expected. Although collections are a little below expectations for the month, economic fundamentals remain healthy and so far the March forecast remains pretty much on track.

The Bureau of Economic Analysis reported that real Gross Domestic Product (GDP) grew 3.8 percent in the fourth quarter of 2004, while this was a little weaker than in the previous quarter (4.0 percent) it was better than assumed in the March 2005 forecast (3.1 percent). On the other hand, the U.S. economy added only 110,000 jobs in March 2005 and the numbers for January and February were revised down. The March increase was only about half of what most economists had expected and was the weakest growth since last July. The Conference Board reported that its index consumer confidence fell for the second consecutive month in March. Although the index is lower than in recent months, it remains well above its year-ago level. The core rate of inflation (excluding food and energy) remains low with the February 2005 index 2.4 percent higher than a year-ago. However, oil prices are rising again and gas prices are hitting all-time highs. At the state level, wage and salary employment continue to increase and claims for unemployment insurance as a percent of the labor force hit a 30 year low in February.

As expected, spending as reflected by sales, use and business and occupation tax payments decelerated to a more sustainable rate this period. Revenue Act receipts were 6.4 percent (adjusted for special factors) higher than a year-ago in the March 11- April 10 collection period (primarily reflecting February 2005 business activity). Revenue Act tax payments increased a very strong 14.6 percent last month and averaged 8.2 percent in the fourth quarter of 2005. For the fiscal year-to-date collections are solid 7.9 percent higher than a year ago.

Preliminary industry data for the March 11, to April 10, 2005 collection period based on payment data of more than 13,000 mostly large taxpayers who filed electronically show moderate growth across-the-board. Businesses in the retail trade and food services sector reported a 6.0 percent increase in tax payments. Last month retailers reported an 8.4 percent gain. All retail NAICS sectors with the exception of motor vehicle and parts retailers reported increases. Double digit gains were reported by building materials/garden retailers (+16.5 percent), furniture and home furnishing stores (+12.0 percent), and

general merchandise stores (+10.6 percent). Increases in other sectors ranged from 9.4 percent reported by gas stations and convenience stores to 1.1 percent reported by sporting goods, toys, books and music stores. Tax payments reported by auto dealers were 0.8 percent below the year ago level. Overall, tax payments by non-retail trade and food services business were 5.3 percent higher than a year ago. Last month this category reported an 11.9 percent increase. The construction sector was again strong, reporting a 14.2 percent increase in tax payments for the period. Businesses in the information sector reported a 9.8 percent increase and the wholesale trade sector reported a 9.5 percent increase. However, manufacturers reported a 15.2 percent decline in tax payments. The strong real estate market continues to boost overall spending. For the month tax payments in sectors that are related to real estate activity (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) were up 13.0 percent, more than three times the increase (4.0 percent) of all other sectors.

Non-Revenue Act General Fund taxes were \$6.1 million above the estimate this period. Stronger than expected estate tax (+\$2.4 million) and "other" payments (+\$4.2 million) more than offset a little weaker than expected real estate excise tax payment (\$-856,000). Most other major taxes were close to the estimate this month. Liquor and cigarette tax payments were a little higher than expected while property tax payments were a little less. Although the State Supreme Court effectively abolished the estate tax for decedents dying after December 31, 2004, because estates are allowed up to nine months to file estate tax returns, payments of decedents dying prior to December 31, 2004 are still being received. A portion of these payments, however, may end up being refunded. The positive variance in the "other" category primarily reflects higher than expected unclaimed property transfers and nursing home fees. These payments are volatile on a monthly basis and higher payments this month may be offset by weaker than expected payments in future month and thus may not reflect a permanent increase in revenue.

The pace of real estate activity decelerated a bit last month, but it still remains strong. Taxable activity (based on closings in February which reflect tax payments to the state in March was 38.1 percent higher than a year-ago. Last month activity was up 54.4 percent and two months ago it increased 47.1 percent. Higher prices continue to drive the increase in activity. In February the average price per transactions rose 30.1 percent while the number of transactions increased 6.2 percent. Mortgage interest rates rose in March but fell again in early April. While the mortgage rate is a little higher than a year ago, it remains low relative to historical norms and anecdotal evidence indicates that the real estate market is still very strong.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$232,000 above the estimate for the month. Cumulatively, Department of Licensing collections are \$261,000 higher than expected.

The attached Table 1 provides a comparison of collections with the March 2005 forecast for the March 11 – April 10, 2005 collection period and cumulatively since the March 2005 forecast. The cumulative variance is virtually identical to the variance for the month because the monthly estimates based on the March forecast reflect actual collections through March 10. The difference in the month and the cumulative-to-date variance in Table 1 reflect data revisions. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
April 10, 2005 Collections Compared to the March 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
March 11 - April 10, 2005				
Department of Revenue-Total	\$719,411	\$717,655	(\$1,756)	-0.2%
Revenue Act** (1)	660,630	652,785	(7,845)	-1.2%
Non-Revenue Act(2)	58,781	64,869	6,089	10.4%
Liquor Sales/Liter	7,203	7,488	285	4.0%
Cigarette	3,936	4,190	254	6.5%
Property (State School Levy)	(664)	(923)	(259)	39.1%
Estate	0	2,421	2,421	NC
Real Estate Excise	46,027	45,171	(856)	-1.9%
Timber (state share)	0	0	0	NA
Other	2,278	6,523	4,245	186.3%
Department of Licensing (2)	696	928	232	33.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$720,107	\$718,583	(\$1,524)	-0.2%
Cumulative Variance Since the March 2005 Forecast (March 11, 2005 - April 10, 2005)				
Department of Revenue-Total	\$719,411	717,655	(1,756)	-0.2%
Revenue Act** (3)	660,630	652,785	(7,845)	-1.2%
Non-Revenue Act(4)	58,781	64,869	6,089	10.4%
Liquor Sales/Liter	7,203	7,488	285	4.0%
Cigarette	3,936	4,196	261	6.6%
Property (State School Levy)	(664)	(923)	(259)	39.1%
Estate	0	2,421	2,421	NA
Real Estate Excise	46,027	45,196	(831)	-1.8%
Timber (state share)	0	(0)	(0.0)	NA
Other	2,278	6,492	4,213	184.9%
Department of Licensing (4)	696	957	261	37.4%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$720,107	\$718,612	(\$1,495)	-0.2%

1 Collections March 11 - April 10, 2005. Collections primarily reflect February 2005 activity of monthly taxpayers.

2 March 1-31, 2004 collections.

3 Cumulative collections, estimates and variance since the March 2005 forecast; (March 11 - April 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the March 2005 forecast; (March 2005) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the March 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
March 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
Febbruary 11 - March 10, 2005				
Department of Revenue-Total	\$718,127	\$718,127	(\$0)	-0.0%
Revenue Act (1)	662,141	662,141	(0)	-0.0%
Non-Revenue Act(2)	55,986	55,986	0	0.0%
Liquor Sales/Liter	7,254	7,254	(0)	-0.0%
Cigarette	3,641	3,641	0	0.0%
Property (State School Levy)-net	(15,721)	(15,721)	0	-0.0%
Property tax collections	6,275	6,275	(0)	-0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	3,583	3,583	0	0.0%
Real Estate Excise	52,454	52,454	0	0.0%
Timber (state share)	2,830	2,830	0	NA
Other	1,944	1,944	(0)	-0.0%
Department of Licensing (2)	517	574	57	11.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	718,644	718,701	\$57	0.0%

Cumulative Receipts: November 11 - March 10, 2005 & Revisions to History

Department of Revenue-Total	4,133,654	\$4,133,654	(\$0)	-0.0%
Revenue Act (3)	3,084,898	3,084,898	(0)	-0.0%
Non-Revenue Act(4)	1,048,756	1,048,756	(0)	-0.0%
Liquor Sales/Liter	37,250	37,250	(0)	-0.0%
Cigarette	16,157	16,157	0	0.0%
Property (State School Levy)-net after transfer	592,025	592,024	(1)	-0.0%
Property tax collections	671,451	671,451	0	0.0%
transfer to the Student Achievement Acct.	(79,426)	(79,427)	(1)	NA
Estate	37,318	37,318	0	0.0%
Real Estate Excise	238,977	238,977	(0)	-0.0%
Timber (state share)	5,684	5,684	(0)	NA
Other	121,346	121,346	0	0.0%
Department of Licensing (4)	2,149	2,188	39	1.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$4,135,803	\$4,135,842	\$39	0.0%

Preliminary. Reported in the March 10, 2005 collection report.

1 Collections February 11 - March 10, 2005. Collections primarily reflect February 2005 business activity of monthly taxpayers.

2 February 1-28, 2005 collections.

3 Cumulative receipts since the November 2004 forecast: November 11- March 10,2005 & revisions to history.

4 Cumulative receipts since the November 2004 forecast (November 2004-February 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

